INCOME TAX ACT 2025 –

Registered Non-Profit Organizations

Overall Approach to Simplification

Removal of redundant provisions

Removal of provisos and explanations

simplification of language & use of tabular format, Use of formulas

Use of Schedules to declutter

No policy changes only rationalization of provisions

Law on Registered NPOs have not just been simplified but also structurally redesigned

Current Provisions Pertaining to Charitable Institutions in ITA 1961

DISPERSED STRUCTURE IN ITA, 1961: SCATTERED PROVISIONS

Chapter I: Charitable Purpose: section 2(15)

Chapter III: sections 10(23C), section 11, section 12, section 12A, section 12AA, section 12AB, section 12AC & section 13

Chapter VIA: Section 80G

Chapter XII: Section 115BBC, Section 115BBI

Chapter XII EB: Section 115TD, Section 115TE, Section 115TF

COMPLEXITY IN ITA 1961

Numerous Amendments

Various Provisos & Explanations

Complex Cross Referencing

This scattered arrangement, segmented by numerous cross references developed over decades due to piecemeal amendments. This resulted in a fragmented, proviso heavy framework that is often difficult for taxpayers and practitioners to navigate.

COMPLEXITY IN ITA 1961

Some Instances

Section 11 alone, there are 13 Explanations and 16 provisos

Section 10 (23C) has 24 provisos. The 3rd proviso to clause (23C) has 7 Explanations, and Explanation 2 to the 3rd proviso has again 8 provisos.

There are provisos within clauses, Explanations to these provisos, and again, provisos to the Explanations making it extremely challenging to comprehend the provisions.

Substantial changes - Charitable Institutions in ITA 1961

New scheme of Registration FA 2020

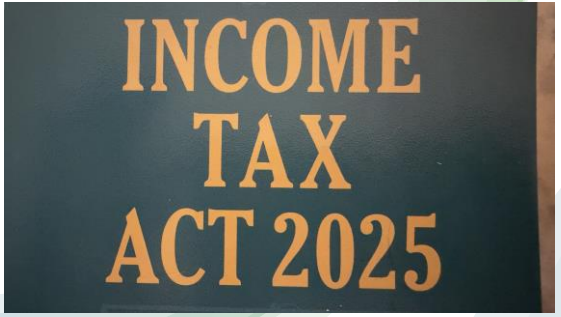
Harmonization of Two Regimes FA 2022

Sunset of 10(23C) Regime – FA 2024

Rationalization Amendments – FA 2021-2024

DUAL STRUCTURE

FOR REGISTERED NON-PROFIT ORGANIZATIONS
Clarity
TAX CODE
Simplification
Consolidation
COMPLEX



APPROACH TO SIMPLIFICATION

CONSOLIDATION

A self-contained code All regulations concerning registered non-profit organisations are consolidated in **Chapter XVII Part B**, titled "*Special Provisions for Registered Non-Profit Organisation*" of the ITA 2025

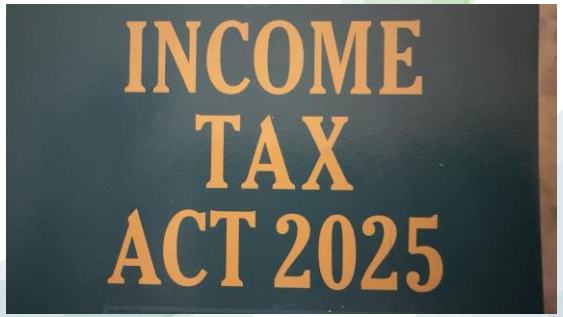
The relevant sections in the ITA 2025 are

CONSOLIDATION

The most significant strength is the consolidation of all NPO-related provisions into a **single new chapter (XVII-B)** by bringing scattered provisions from five different chapters of the 1961 Act into one place. [Sections 332-355 of ITA 2-25]

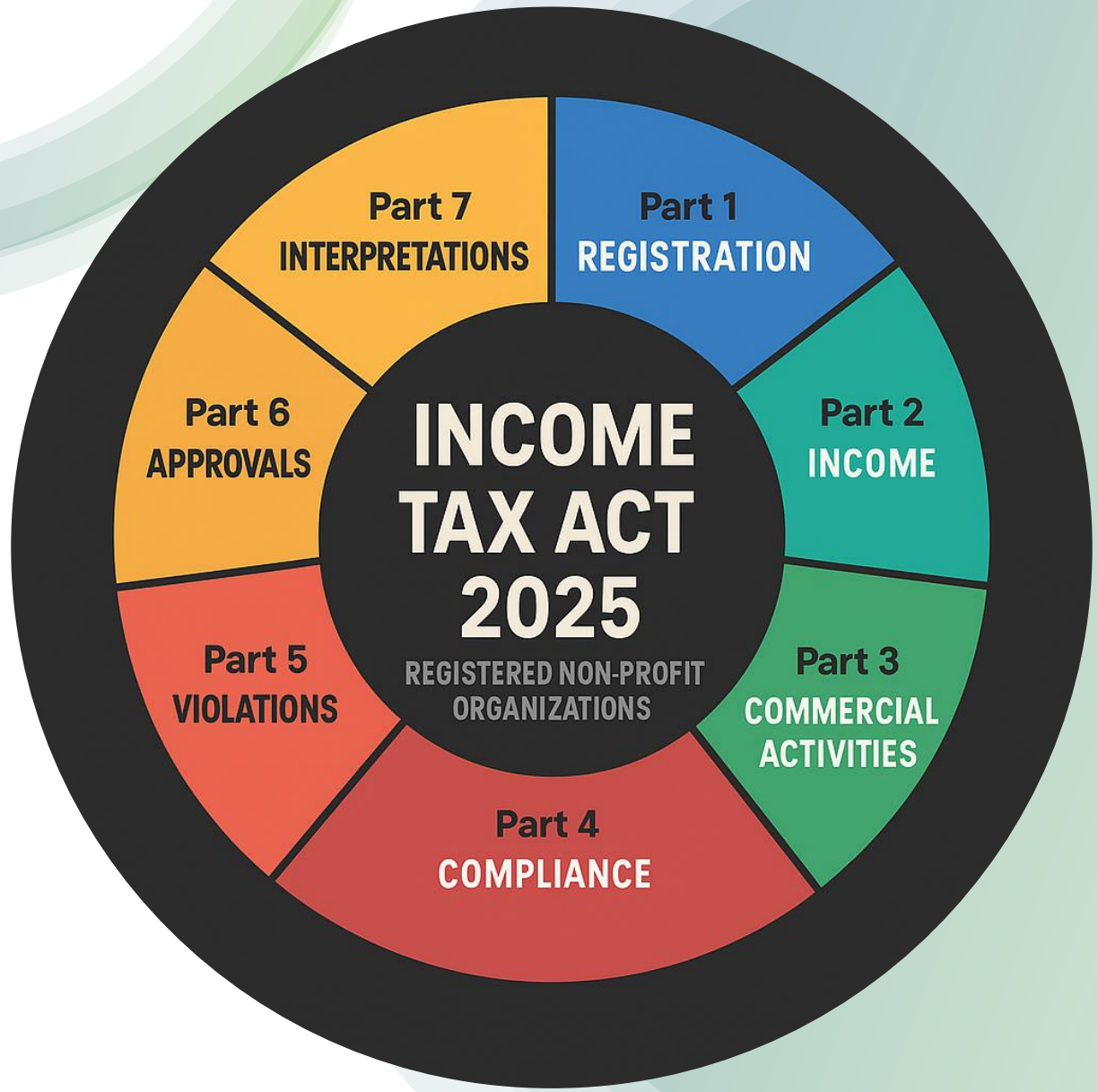
The consolidation has also succeeded in reducing the word count by **40%** (from **12,800** to **7,600** words)

The law becomes more concise, accessible, and easier for NPOs to understand and comply with.



Structural optimization

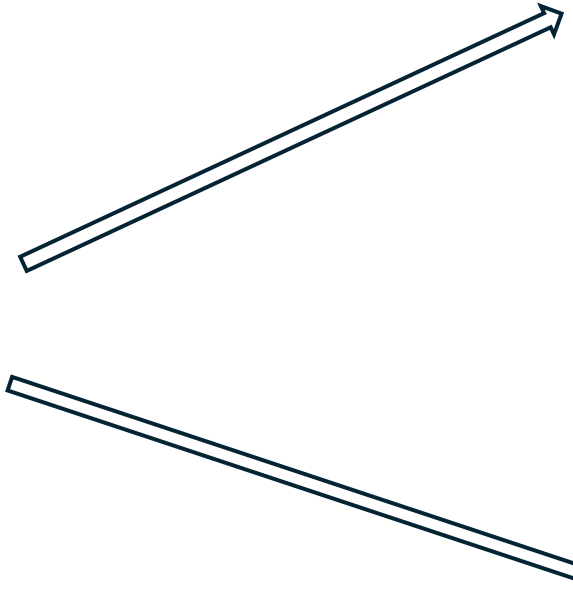
Seven clearly defined parts with **linear approach**



Structural optimization

PART I
Section
332-333

REGISTRATIO
N



Registratio
n Process

Switching
Over of
Regimes

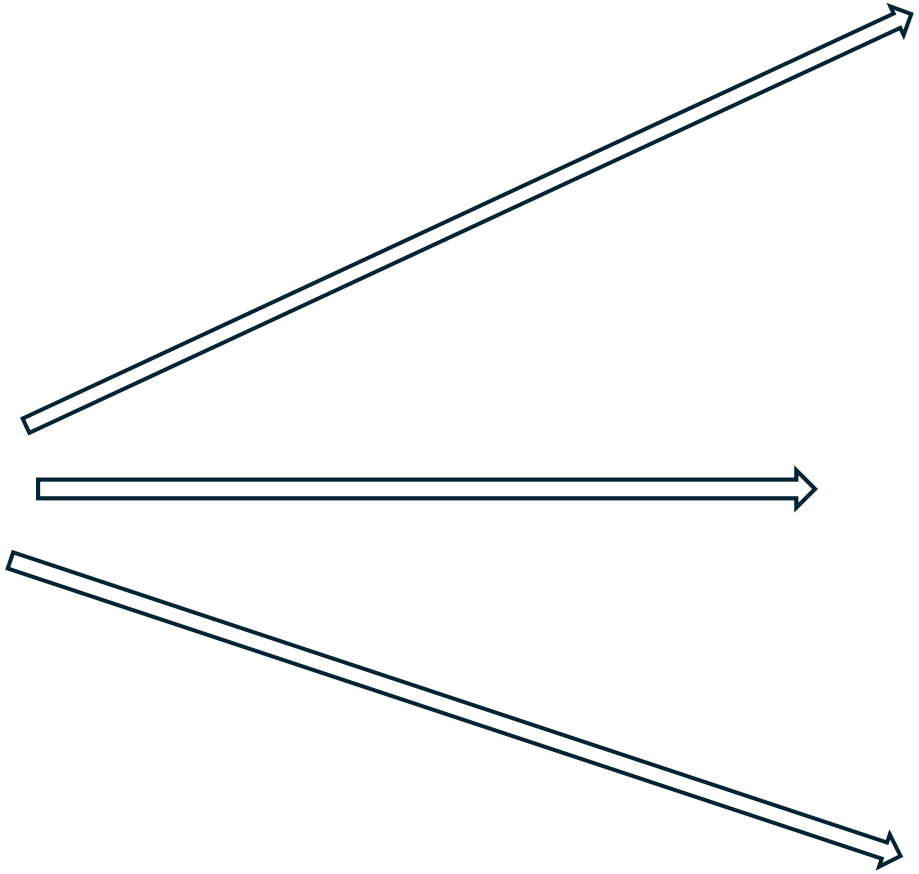
PART II
Section
334-343

INCOME OF REGISTERED NPO

- Tax on Income of a Registered NPO
- Regular Income
- Taxable Regular Income
- Specified Income
- Income Not Included in Regular Income
- Corpus Donation
- Deemed Corpus Donation
- Application & Deemed Application
- Accumulation of Income
- Deemed Accumulation

PART III
Section
344-346

COMMERCIAL ACTIVITIES BY REGISTERED NPO



- Business Undertaking Held As Property
- Commercial Activities of a Registered NPO
- Commercial Activities of a Registered NPO with GPU

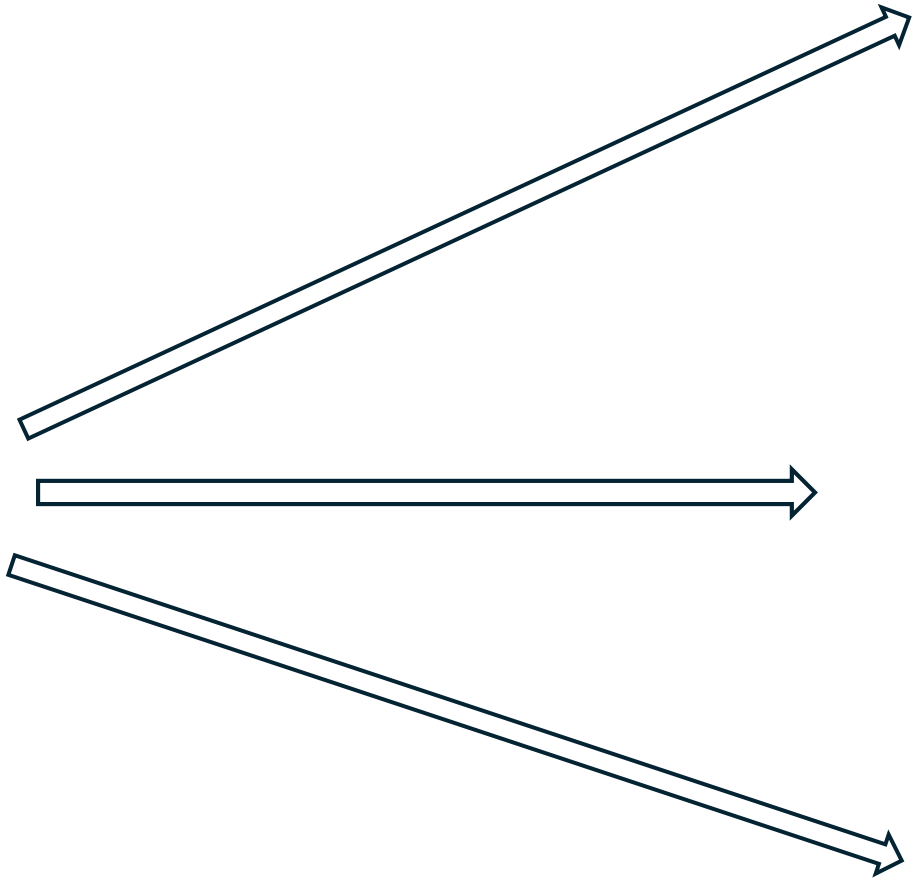
PART IV
Section
347-350

COMPLIANCES

- Books of Account
- Audit
- Return of Income
- Permitted Modes of Investment

PART V
Section
351-353

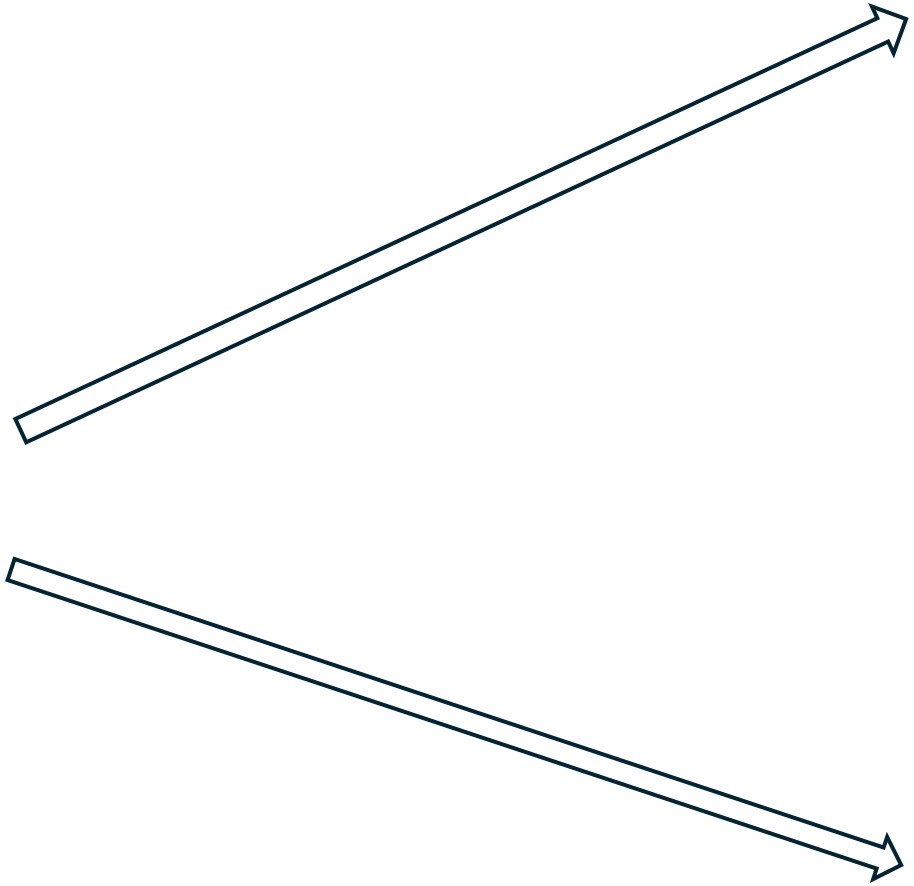
VIOLATIONS



- Specified Violations
- Tax on Accreted Income (Exit Tax)
- Other Violations

PART VI
Section
354

Approval for purpose of Section 133(1)(b) *[Old 80G(5)]*



Procedure

Compliances

PART VII
Section
355

Interpretations

Bringing Clarity & Tax Certainty

Table

Sl. No.	Case	Time limit for furnishing application	Time limit for passing order	Validity of registration
A	B	C	D	E
1.	Where the activities of the applicant have not commenced and it has not been registered under any specified provision at any time before making the application.	At any time during the tax year beginning from which registration is sought.	One month from the end of the month in which application is made.	Three tax years commencing from the tax year in which such application is made.

Use of Tabular Structure for simplification

- Registration Section 332
- Specified Income *Section 337*
- Accreted Income *Section 352*

Use of Schedules to declutter

Schedule VII – Persons Exempt From Tax

Schedule XVI – Permitted Modes of Investment or Deposits

WHAT HAS CHANGED

Under the ITA1961, registered NPOs were dealt within *Chapter III – Incomes which do not form part of total income*

STRUCTURAL SHIFT

In ITA 2025 provisions related to registered NPOs have been removed from general exemptions provisions of Chapter III and placed within a dedicated Chapter XVII-B

The tax status of NPOs gets reframed general 'exemption provisions' in Chapter III of ITA 1961 to being a distinct, and uniquely administered category of taxpayers – not passive recipients of exempt income but **distinct and well-regulated taxable class**

Registered NPO provisions being a self-contained code may be construed strictly by the Courts when compared with the benevolent Exemptions provisions related to charity often construed liberally.

NOMENCLATURE

'Registered Non Profit Organisation' – New Term introduced in ITA 2025 to replace various legacy descriptions like 'trust', 'society', and 'institution'

This standardization, along with the consistent use of 'registration' instead of 'approval,' eliminates ambiguity and ensures a consistent application of the law across all types of non-profit entities, aligning with international practices

ITA, 1961 uses different terms such as trust, institution, university, educational institution, hos… provis…

Unified Term in ITA 2025: Registered Non-Profit Organization

Section 10(23C) of ITA, 1961 uses the term "approval" while section 12AB uses the term "registration"

Single Term in ITA 2025 : Registrati

CONDITIONS OF ELIGIBILITY

By streamlining processes for registration, compliance, and taxation into a single, cohesive framework, the new law reduces complexity and improves efficiency. This unified structure is designed to be more organized and predictable, reducing administrative overhead.

What has changed

Section 332 of the ITA 2025 lays down the conditions of eligibility for the types of organizations that can apply for registration.

Board has been empowered with authority to notify
any other Person, other than the ones mentioned in
section 332

What has changed

FOREIGN ENTITIES NOT ELIGIBLE FOR REGISTRATION

ITA1961 allowed trusts with property held for charitable or religious purposes **without** an explicit instruction that the property must be in India.

ITA 2025 explicitly states that only entities registered, incorporated or constituted in India are eligible to apply
for registration.

Foreign entities operating within India through Branches/Los etc. are ineligible to seek registration under Chapter XVII-B

Section 332

SCOPE OF REGULATIONS

~~trusts/institutions~~ etc covered under Sec. 10(23C) (iiiab)/ (iiiac)/ (iiiad)/ (iiiae) were neither required to apply for exemption nor obtained prior ~~approval to claim~~ tax benefits.

Additionally they were not required to apply 85% of their income or undergo any audit. The only requirement was filing of ITR.

Such institutions must obtain registration to qualify and comply with all regulatory conditions as prescribed

The new law trades the complexity of the old regime for more explicit rules.

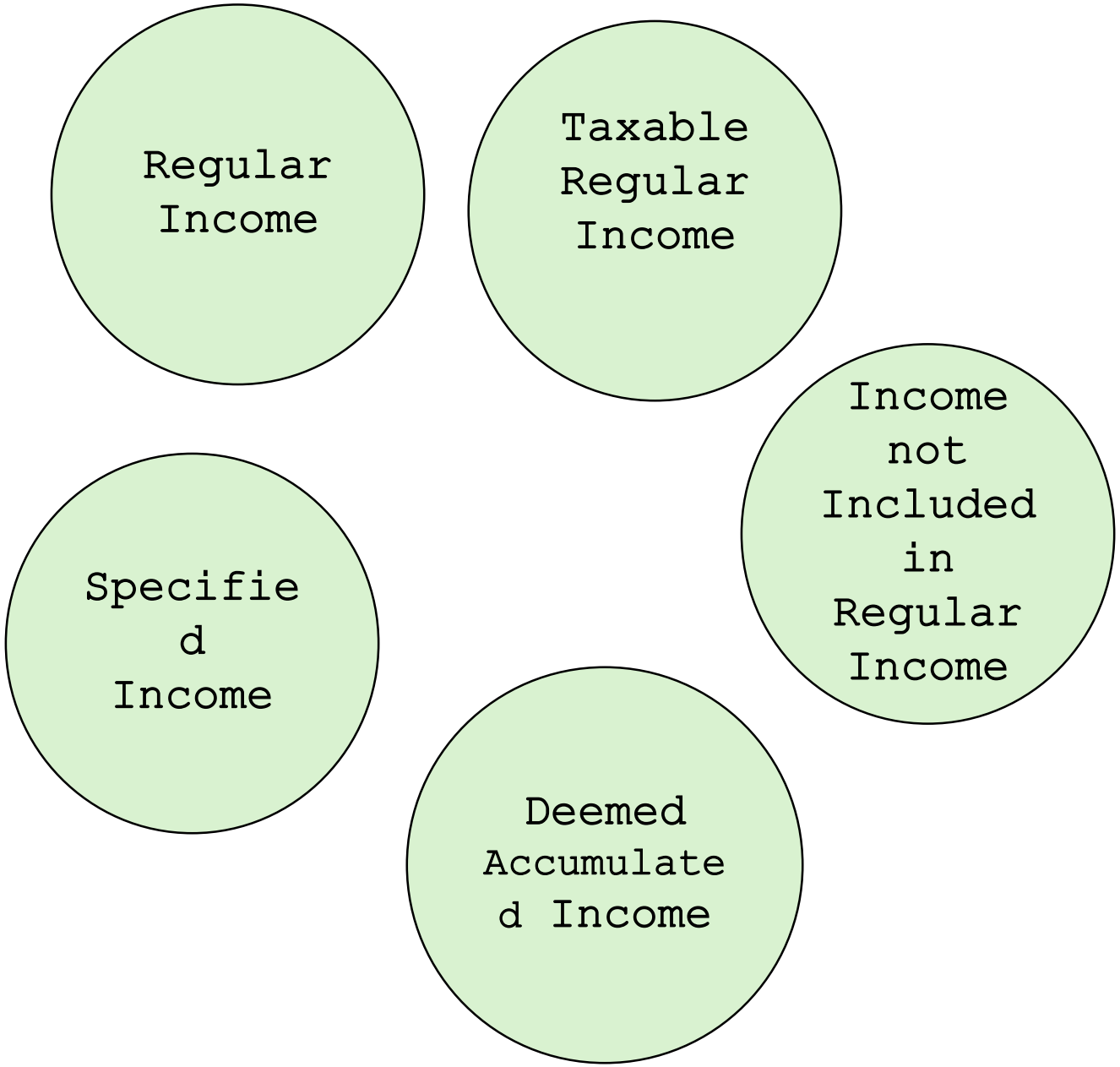
OPTION FOR SEC. 10(23C) SMALLER NPOS

University of educational institutions or hospitals whose aggregate annual receipts do not exceed Rs 5 Crores

→ Schedule VII (Table: Sl. No. 19) Persons Exempt from Tax

Option for Smaller NPOs: Such entities may either rely on the specific schedule-based exemption (without registration) or choose to obtain registration under section 332 and avail exemptions as per the self-contained code of Chapter XVII - B

New Terms–



Streamlining the taxability of registered NPOs

Regular Income

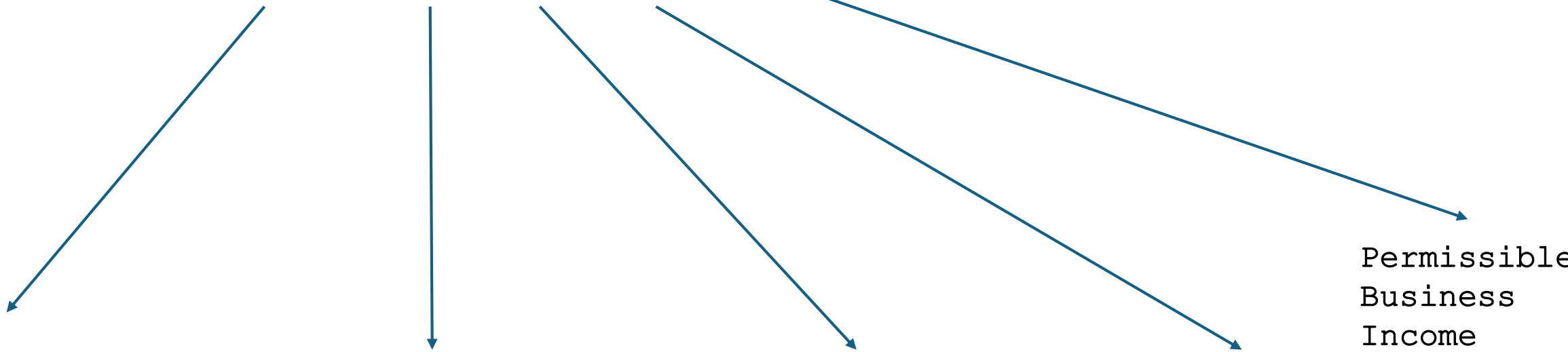
ITA 1961 did not contain a comprehensive definition/term of the income universe of

Section 11(1) covered income from property held under the trust
Section 11(4) & 11(4A) addressed permissible business income
Section 12(1) deemed voluntary donations to be income

Section 335 of ITA 2025 codifies and formalizes the entire income universe of Registered NPOs & enhances clarity

Section 335

Regular Income



Activity Income

Income From Property/Deposits/ Investments

Income From Property/Investments Partly Held for Religious/ Charitable Purposes

Voluntary Contributions

Permissible Business Income

Section 335

Taxable Regular Income

NIL – If 85% or more of regular income is **applied** for the stated charitable/religious purposes,

OR

accumulated in accordance with the provisions of section 342

Taxability on partial application + accumulation if less than 85% of the regular income

Section 336

Since most registered non-profit organizations apply + accumulate 85% of their regular income for charitable or religious purposes, the taxable regular income in their cases shall be nil with zero tax liability.

However, if a registered non-profit organization is unable to apply 85% of its regular income or accumulate the same under section 342, then regular income for such tax year as reduced by its application or accumulation shall be its taxable regular income and chargeable to tax.

	Case 1	Case 2	Case 3
Regular income	100	100	100
Application of income	70	60	105
Accumulation of income	15	Nil	Nil
Taxable regular income	Nil	25	Nil

Residual Income

"residual income" means the total income without giving effect to the provisions of this Part, as reduced by regular income and specified income;

A drafting safeguard

To take care of deeming provisions or eventualities regular or specified income.

Section 355(j)

Sl	Specified Income
1	Anonymous Donations
2	Applied for the benefit of related persons
3	Applied outside India without approval
4	Investment in Non specified modes
5	Deemed Corpus Donation
6	Misapplication of Accumulated Income
7	Accumulated Income Ceases to be In Permitted Modes
8	Accumulated Income Not Applies within the specified period
9	Accumulated Income credited/paid to any other registered NPO
10	Misapplication of Income
11	Additional Business Income Assessed
12	Non-Compliant asset holdings
13	Unapplied deemed application

Specified Income

Section 337

Consolidation of section 12(2), 115BBI & 115BBC

Group	Violation Type	Section 337 Items
Governance & Misapplication	Breaches of Fiduciary/Purpose Mandates	Applied for the benefit of related persons; Applied outside India without approval; Misapplication of Income; Unapplied deemed application.
Financial Management	Breaches of Investment and Corpus Integrity	Investment in Non-specified modes; Deemed Corpus Donation; Accumulated Income Ceases to be In Permitted Modes; Non-Compliant asset holdings.
Regulatory	Procedural and Reporting Breaches	Anonymous Donations; Misapplication of Accumulated Income; Accumulated Income Not Applied within the specified period; Accumulated Income credited/paid to any other registered NPO; Additional Business Income

Specified Income

Thematically Grouped Specified Income

Deemed Accumulated Income

under section 342, to the extent of 15% of regular income, shall be considered as deemed accumulated income and where such deemed accumulated income is invested or deposited, it shall be invested or deposited in any of the modes permitted under section 350.

The deemed accumulated income under this section shall not be considered as accumulated income for the purposes of section 342.

Section 343

not included in Regular Income

Income applied outside India for charitable and/or religious proposes with CBDT's approval

Corpus Donations

Computation of Income of Registered NPO – Working of the Code

Particulars	Amount
Phase 1: Aggregation of Regular Income	
Income from charitable or religious activity	***
Income from property, deposit or investment held wholly/partly for charitable/religious purposes	***
Voluntary contributions	***
Gains of permissible commercial activity	***
Regular Income before application	*****

Phase 2: Application and Accumulation Test (The 85% Mandate)	
Less: Application of Income (Includes Repayment of loans/borrowings, corpus donations invested back, etc.)	(***)
Less: Deemed Application/Accumulation	(***)
Taxable Regular Income	*****

Phase 3: Final Taxable Income Determination	
Add: Penal Disallowances/Adjustments (TDS non-compliance, Cash payments exceeding limits)	***
Add: Amounts Not Allowed as Application (Depreciation if asset claimed as application, Application from corpus/loans, claim of deficit etc.)	***
Taxable Regular Income	*****
Specified Income (Taxable @30%)	*****
Residual Income	*****
Total Taxable Income	*****

RATIONALISATION

What has changed

The rationalization of provisions and the provision of clearer guidelines are specifically designed to minimize disputes and potential legal challenges that were common under the previous, more fragmented law.

COMMERCIAL ACTIVITIES

GPU Charity

The provision has been relocated from within the definition of "Charitable purpose" to a standalone section (section 346) – bringing to focus the necessary compliance requirements.

While ITA 2025 retains the 20% threshold and the 'actual carrying out of activities', **it now expressly mandates the maintenance of separate books of accounts for such activities,** a requirement that was absent under section 2(15) of ITA 1961

The legal nuances and operative terminology have been c
Retained to sustain the ruling by Hon'ble Supreme Court

COMMERCIAL ACTIVITIES

What has changed

It has been specifically provided that the gains from commercial activities shall be computed in the prescribed manner, and the rules in this regard shall be notified soon

Section 335 (e)

COMMERCIAL ACTIVITIES

Non-GPU Charity	GPU Charity
Restricted only to activity **incidental** to objects	only during actual carr
Separate Books of accounts	Separate Books of accou

Retention of operative termino

COMMERCIAL ACTIVITIES

What has changed

The failure of the proviso to section 2(15) was **not tr**
Violation triggering cancelation proceedings in ITA 19
invoked special computation mechanism under section 13

Under ITA 2025, breach of section 346 (commercial activity restriction) has been incorporated **both** as a specified violation triggering cancellation proceedings [section 351(1)(b)] and under special computational mechanism, where benefit of exemption is denied only for that year (section 353)

MERGER

What has changed

Merger of registered non-profit organisations is now allowed, subject to prescribed conditions,
and the rules in this regard shall be notified soon

BENEFITS TO RELATED PERSONS

What has changed

Benefits to related persons shall be computed in the prescribed manner, and the rules in this regard shall be notified in due course

REGISTRATION

Section 332(7) of the ITA 2025 empowers Principal Commissioner or Commissioner to conduct necessary inquiries before granting registration.

While the ITA 1961 allowed for inquiries, the ITA 2025 explicitly empowers CsIT to conduct comprehensive investigations into an organization's compliance with legal requirements and the authenticity of its activities before granting registration.

ITA 2025 introduces a more streamlined, transparent, and rigorous framework for the registration of non-profit organizations, addressing ambiguities and inefficiencies present in the earlier provisions.

REGISTRATION

To reduce the compliance burden for the smaller registered non-profit organisations, the period of validity of registration of **certain registered non-profit organisations has been increased from 5 years to 10 years.**

(Applicable in cases where without giving effect to the provisions of Chapter XVII-B, total income of the registered non-profit organisation does not exceed Rs. 5 crores during each of the two tax years, preceding to the tax year in which such application is made)

Change suggested by the Drafting Committee was introduced early through FA, 2025 in ITA

Reducing the Administrative Overload

CONDONATION

ITA 2025 has responded to the feedback from Stakeholders.

The introduction of Section 332(4) in the Income Tax Bill 2025 aims to streamline the process by statutorily empowering prescribed authorities to condone delays in registration applications, thereby reducing the reliance on separate CBDT circulars for such matters.

Section 332(9) grants the CIT/PCIT the power to condone delays in renewal applications, where registration had been granted prior to 1.4.2021, if the NPO can show 'reasonable cause,' codifying a previously discretionary

BOOKS OF ACCOUNTS

What has changed

ITA 1961: Placement in section 12 A – eligib exemptions

ITA 2025: Placement in section 347 – within compliance framework

Section 347

AUDIT

What has changed

Retains the ITA 1961 framework with textual s

Unlike ITA 1961, the new Act does not prescri
furnishing the Audit report but delegates aut
such date and such time as may be prescribed.

Section 348

What has changed

ITR

Corresponds to section 12A(1)(ba) of ITA 1961. The ITRs could be filed within the time prescribed under section 139(1) or belatedly under section 139(4)

ITA 2025 **does not provide** for filing a belated return. Exemption is available only if the return is filed within the original due date under section 263(1)(c)

Section 349

INVESTMENTS

What has changed

Corresponds to section 11(5) of ITA 1961.

To declutter the Act permitted modes of investment have been specified in Schedule XVI of ITA 2025.

Central Government is expressly empowered un section 350(2) to prescribe additional modes

Section 350

INVESTMENTS

ITA 1961:

Corpus Section 11(1)(d)

Deemed Corpus Expln 3A to section 11(1)

Accumulated Income 11(2)

Under Section 11(1)(a) of ITA 1961, trusts could retain 15% of their income without any conditions on investment.

ITA 2025:

Corpus Section 339

Deemed Corpus Section 340

Accumulated Income Section 342

Deemed Accumulated Income Section 343

Under Section 343 of ITA 2025, a separate investment category of deemed accumulated income has been Introduced.

ACCRETED INCOME

Section 332(6):
Any application for registration is not made within the time specified and the delay in filing such application is **not condoned**, such person shall be liable to pay tax on accreted income under section 352.

This is a **significant shift** from earlier law.

WHAT HAS NOT CHANGED

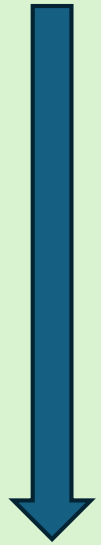
Registration process

Exemption of income

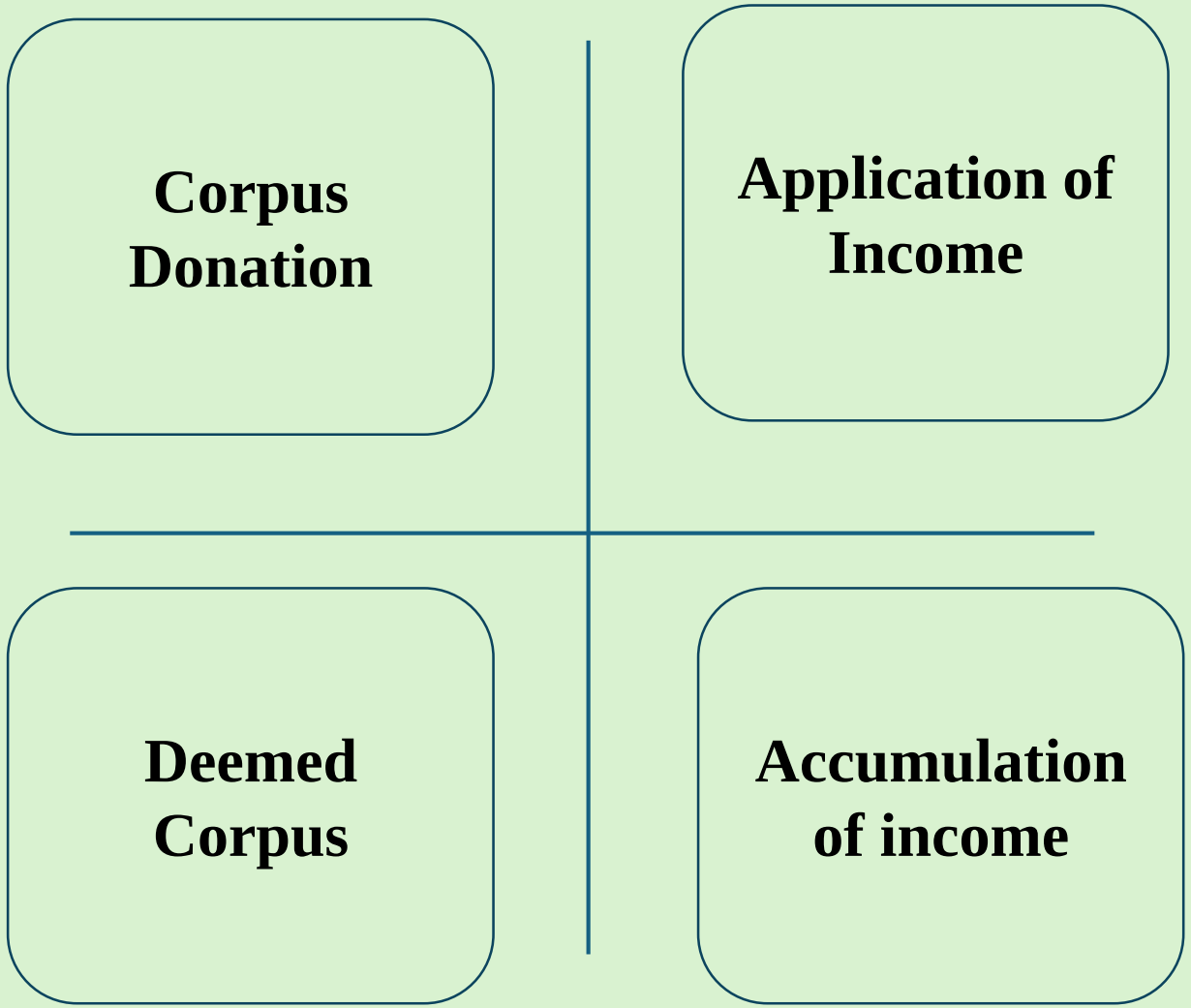
Switching over of Regimes

Specified income

What has NOT change



THE CORE CONCEPTS



What has NOT change

THE CORE CONCEPTS

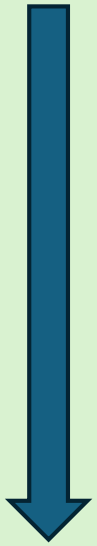
Commercial activities

Compliances

Investments

Violations

What has NOT change



THE CORE CONCEPTS

Post Standing Committee Deliberations: Not in the Initial Bill

Capital Gains

Deemed Application

Anonymous Donations

Continuance of Provision

At Exemptions Vertical Level

To organize workshops/outreach programmes to build awareness among NPOs regarding new provisions.

Focus on smaller organizations to enhance their compliance readiness.

These events to serve as a feedback mechanism to monitor the impact of the new law and facilitate timely clarifications.

At the Central level

Work is in progress to ensure that the digital filing infrastructure is functional and user-oriented.

If required, the CBDT may consider a guidance note/circular to clarify the ‘accreted tax’ provisions, for uniform implementation by Dept and NPOs.

New rules are currently being formulated

The Income Tax Act,2025 represents a substantial legislative overhaul of the taxation regime applicable to registered non-profit organisations (NPOs). It replaces and restructures the provisions governing charitable and religious trusts under the Income Tax Act 1961 into a comprehensive and self contained code.

A defining hallmark of the new framework in the 2025 Act is the consolidation of provisions. Provisions which, under the 1961 Act, were dispersed across multiple Chapters, Sections, provisos, and Explanations have now been brought into a single legislative block.

Redundancies have been eliminated, terminologies have been standardised, and definitions previously scattered across various provisions have been harmonised within a unified framework.

Taxmann Master Guide to Income Tax Act

END OF PRESENTATION